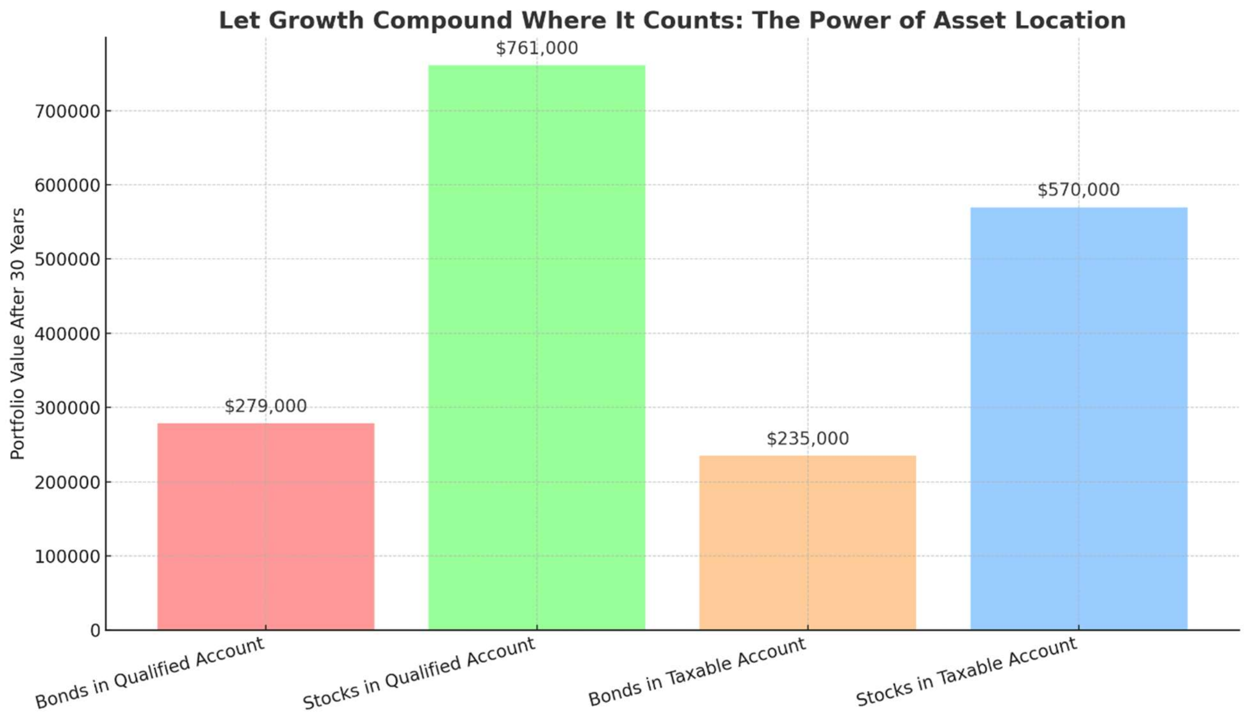
Why Where You Invest Matters as Much as What You Invest In

The magic of compound interest isn't just about picking the right assets—it's about placing them in the right accounts. Asset location, the strategic decision of where to hold investments like stocks or bonds, can significantly amplify long-term returns. Traditional approaches often prioritize tax deferral on fixed income, but a deeper look suggests this may not always maximize wealth.



Qualified vs. Non-Qualified: The Account Divide

Qualified accounts—like 401(k)s and IRAs—offer tax deferral, sometimes with upfront deductions, but cap annual contributions ($23,000 for 401(k)s and $7,000 for IRAs in 2025, with catch-up contributions for those over 50). Withdrawals are taxed as ordinary income. Non-qualified accounts, such as standard brokerage accounts, use after-tax dollars, have no contribution limits, and tax only realized gains or income, offering greater flexibility.

The Old Playbook: Bonds in IRAs, Growth Elsewhere

Many investors resort to holding fixed income—bonds or CDs—in qualified accounts to defer taxes on interest. The logic is straightforward: shield income from annual taxes to preserve returns. However, this approach has a catch. Qualified accounts have limited space due to contribution caps, and allocating them to lower-yielding assets can crowd out higher-growth investment opportunities.

Flipping the Script: Growth Takes Priority

A smarter strategy may be to prioritize equities in qualified accounts. Stocks, with their higher expected returns, benefit most from tax-deferred compounding, as dividends and capital gains grow untouched until withdrawal. Fixed income, with its lower returns, can reside in non-qualified accounts, where annual taxes on interest have a smaller impact. This setup also preserves liquidity in non-qualified accounts for short-term needs, as qualified account withdrawals before age 59½ often incur penalties.

The Math Tells the Story

Consider $100,000 in a qualified account. At 7% annual returns (equities), it grows to ~$761,000 in 30 years. At 3.5% (bonds), it reaches only ~$279,000. The gap—$482,000—shows the power of letting high-growth assets compound tax-free. In non-qualified accounts, bonds face annual taxes on interest, but their lower returns mean the tax hit is less significant compared to equities' potential.

Risks and Realities

This approach isn't without trade-offs:

- **Volatility**: Equities in qualified accounts expose retirement funds to market swings, which could hurt if a downturn hits near withdrawal time.
- **Tax Rates**: Qualified account withdrawals face ordinary income tax rates, potentially higher than capital gains rates in non-qualified accounts.
- **Liquidity Needs**: Locking growth assets in qualified accounts may limit access to funds, requiring careful planning.

Investors with shorter horizons or lower risk tolerance might still prefer bonds in qualified accounts for stability. Tax law changes or personal circumstances also demand regular reassessment.

Making It Work: A Balanced Approach

Optimizing asset location requires aligning investments with goals, risk tolerance, and cash flow needs. Regular portfolio reviews and rebalancing ensure the strategy adapts to market shifts or life changes. Tools like Monte Carlo simulations or tax projection models can quantify the benefits of placing equities in qualified accounts versus bonds in taxable ones.

The Bottom Line: Compound Where It Counts

When it comes to building lasting wealth, it's not just about what you invest in—it's about where those investments grow. Asset allocation determines your risk and return profile, but asset location determines how much of that return you actually keep. By strategically placing the right investments in the right accounts, you harness the full power of tax efficiency and compound growth.

Qualified accounts like IRAs and 401(k)s provide a tax-sheltered environment where growth assets can compound without interruption—an advantage that taxable accounts simply can't match. Over time, that difference adds up to real, measurable wealth.

But here's the real "what if": what if you could bring tax deferral to taxable accounts? Picture Compoundr™—a solution that offers the compounding benefits of retirement accounts without the restrictions. No contribution caps. No early withdrawal penalties. Just clean, continuous growth.

It doesn't exist quite yet—but it should. And when it does, it won't just tweak your investment strategy—it will transform it. Until then, optimizing your asset location remains one of the most underappreciated ways to boost your after-tax returns and build wealth that lasts.